

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



27TH DISTRICT AGRICULTURAL ASSOCIATION
SHASTA DISTRICT FAIR
ANDERSON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-026
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

27TH DISTRICT AGRICULTURAL ASSOCIATION
SHASTA DISTRICT FAIR
ANDERSON, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

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AUDIT REPORT NUMBER

#08-026

27TH DISTRICT AGRICULTURAL ASSOCIATION
SHASTA DISTRICT FAIR
ANDERSON, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Pat Wallner, President
Board of Directors
27th DAA, Shasta District Fair
1890 Briggs Street
Anderson, California 96007

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 27th District Agricultural Association (DAA), Shasta District Fair, Anderson, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 27th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 27th DAA, Shasta District Fair, as of December 31, 2007, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In 2006, property records were not properly reconciled and updated for auditing the year ending December 31, 2006. The Closed Project Status Report obtained from California Construction Authority (CCA) identified one project totaling approximately \$60,450 that was not recorded in the accounting records by the Fair. Furthermore, we were unable to establish whether or not these items met the capitalization criteria, and the Fair was unable to

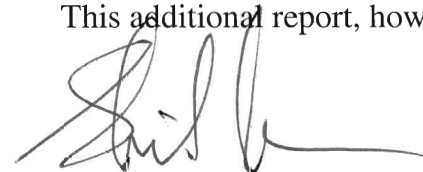


provide any supporting documentation disclosing full accounting over this project. As such, we were unable to satisfy ourselves to the amount stated in the accompanying financial statements for Account # 192, Buildings and Improvements - Net, (stated at \$2,544,927), at December 31, 2006.

Because of the matter discussed in the fourth paragraph, in our opinion, except for the amount reported in Account #192, Buildings and Improvements, and its related contra asset account, Account #192.1, Buildings and Improvements-Accumulated Depreciation, the 2006 financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the 27th District Agricultural Association, Shasta District Fair, as of December 31, 2006 and the results of its operations and changes in accountability, and cash flows-regulatory basis for the year then ended, in conformity with the accounting principles generally accepted in the United States of America.

The 27th DAA, Shasta District Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-026, on the 27th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 27th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.


For Ron Shackelford, CPA
Chief, Audit Office

November 14, 2008

**27th DISTRICT AGRICULTURAL ASSOCIATION
SHASTA COUNTY FAIR
ANDERSON, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	<u>Account Number</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Cash in Bank	111-116	\$ 77,852	\$ 121,057
Accounts Receivable, Net	131	31,790	59,940
Construction In Progress	190	75,900	16,705
Land	191	242,604	242,604
Buildings and Improvements, Net	192	2,744,357	2,544,927
Equipment, Net	193	20,852	29,731
TOTAL ASSETS		<u>3,193,355</u>	<u>3,014,964</u>
LIABILITIES AND NET RESOURCES			
Liabilities and Other Credits			
Accounts Payable	212	132,103	152,319
Current Portion of LT Debt	212.5	7,973	32,238
Other Payables	213 - 226	30,460	-
Deferred Income	228	26,945	21,430
Guarantee Deposits	241	15,040	17,190
Compensated Absences Liability	245	35,641	38,318
Long Term Debt	250	90,740	98,713
Miss Shasta Scholarship Fund	255	-	427
Total Liabilities and Other Credits		<u>338,902</u>	<u>360,635</u>
Net Resources			
Reserve for Junior Livestock Auction	251	24,235	(825)
Net Resources - Operations	291	(162,755)	(178,814)
Net Resources - Capital Assets less Related Debt	291.1	2,992,972	2,833,967
Total Net Resources Available		<u>2,854,452</u>	<u>2,654,329</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 3,193,355</u>	<u>\$ 3,014,964</u>

**27th DISTRICT AGRICULTURAL ASSOCIATION
SHASTA COUNTY FAIR
ANDERSON, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Year Ended December 31, 2007 and 2006

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 124,000	\$ 124,000
Other F& E Allocation	313	15,000	-
Other F & E Project Allocation	317	13,317	-
Capital Project Reimbursement	319	354,498	75,900
Admissions	410	182,975	211,829
Commercial Space	415	81,020	85,585
Carnival	421	158,078	168,994
Food Concessions	422	69,955	72,802
Exhibits	430	18,331	15,609
Horse Show	440	3,252	5,688
Satellite Wagering	450	91,170	90,198
Attractions - Fairtime	460	12,940	7,922
Motorized Racing	461	436,254	550,508
Miscellaneous Fair	470	63,615	67,349
JLA - Revenue	476	85,211	862,656
Non-Fair Revenue	480	213,554	206,922
Prior Year Adjustment	490	7,014	34,183
Other Revenue	495	27,543	25,534
Total Revenue		<u>1,957,727</u>	<u>2,605,679</u>
EXPENSES			
Administration	500	312,621	314,232
Maintenance and Operations	520	383,666	393,052
Publicity	540	27,516	26,482
Attendance	560	81,208	90,088
Miscellaneous Fair	570	10,188	9,937
JLA - Expense	576	60,152	852,320
Premiums	580	35,174	37,160
Exhibits	630	45,413	35,303
Horse Show	640	3,842	3,902
Satellite Wagering Expense	650	65,280	71,596
Attractions - Fairtime	660	111,867	97,048
Motorized Racing	661	461,356	560,809
Equipment	723	-	10,023
Prior Year Adjustments	800	16,930	(18,738)
Cash Over/Short from Ticket Sales	850	272	365
Depreciation Expense	900	142,118	133,743
Other	945	-	(6,147)
Total Expenses		<u>1,757,603</u>	<u>2,611,175</u>
RESOURCES			
Net Change - Income / (Loss)		200,123	(5,496)
Resources Available, January 1		2,654,329	2,659,825
Resources Available, December 31		<u>\$ 2,854,452</u>	<u>\$ 2,654,329</u>

**27th DISTRICT AGRICULTURAL ASSOCIATION
SHASTA COUNTY FAIR
ANDERSON, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Year Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 200,123	\$ (5,496)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	28,150	(38,675)
(Increase) Decrease in Deferred Charges	-	26
Increase (Decrease) in Deferred Income	5,515	(14,063)
Increase (Decrease) in Accounts Payable	(20,216)	41,748
Increase (Decrease) in Current Portion of Long-Term Debt	(24,265)	15,846
Increase (Decrease) in Other Liabilities	30,460	-
Increase (Decrease) in Compensated Absence Liability	(2,677)	11,821
Increase (Decrease) in Shasta Scholarship Fund	(427)	-
Increase (Decrease) in Guarantee Deposits	(2,150)	1,206
Total Adjustments	<u>14,390</u>	<u>17,909</u>
Net Cash Provided (Used) by Operating Activities	<u>214,514</u>	<u>12,413</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Construction in Progress	(59,195)	(15,150)
(Increase) Decrease of Buildings and Improvements, Net	(199,430)	112,928
(Increase) Decrease of Equipment, Net	<u>8,879</u>	<u>17,168</u>
Net Cash Provided (Used) by Investing Activities	<u>(249,746)</u>	<u>114,945</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	<u>(7,973)</u>	<u>(72,239)</u>
Net Cash Provided (Used) by Financing Activities	<u>(7,973)</u>	<u>(72,239)</u>
NET INCREASE (DECREASE) IN CASH	(43,205)	55,119
Cash at Beginning of Year	121,057	65,938
CASH AT END OF YEAR	<u><u>\$ 77,852</u></u>	<u><u>\$ 121,057</u></u>

**27TH DISTRICT AGRICULTURAL ASSOCIATION
SHASTA DISTRICT FAIR
ANDERSON, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 27th District Agricultural Association (DAA) was formed in 1933, for the purpose of sponsoring, managing, and conducting the Shasta District Fair each year in Anderson, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 1,080	\$ 1,217
Cash in Bank - Operating	19,168	24,919
Cash in Bank - Premium	1,958	10
Cash in Bank - Payroll	24	334
Cash in Bank – LAIF/Savings	25,603	88,584
Cash in Bank – JLA	<u>30,019</u>	<u>5,993</u>
Total Cash and Cash Equivalents	<u>\$ 77,852</u>	<u>\$ 121,507</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectability.

	<u>2007</u>	<u>2006</u>
Accounts Receivable	\$ 37,019	\$ 62,341
Allowance for Doubtful Accounts	<u>(5,229)</u>	<u>(2,401)</u>
Accounts Receivable - Net	<u>\$ 31,790</u>	<u>\$ 59,940</u>

NOTE 4 PROPERTY AND EQUIPMENT

As noted on the Statement of Operations (STOP) for years ending 2007 and 2006, the Fair reported a construction in progress balance of \$1,069,503 and \$989,128 that represents \$993,603 and \$972,423, respectively, spent by a contractor installing a solar panel project on the fairgrounds. Direct costs consisting of \$75,900 and \$16,705 was spent by the Fair for the project. Since the solar panel project will not be placed in service until 2008, our office elected to adjust Account #190, Construction in Progress, to present only the direct costs spent by the Fair as of December 31, 2007 and 2006. We

anticipate fully capitalizing the entire cost of the project when it is completed and final costs are determined sometime in 2008.

Construction in progress, buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Construction In Progress	<u>\$ 75,900</u>	<u>\$ 16,705</u>
Building & Improvements	\$ 5,536,083	\$ 5,189,209
Less: Accumulated Depreciation	<u>(2,791,726)</u>	<u>(2,644,282)</u>
Building & Improvements - Net	<u>\$2,744,357</u>	<u>\$2,544,927</u>
Equipment	\$ 253,742	\$ 247,001
Less: Accumulated Depreciation	<u>(232,890)</u>	<u>(217,270)</u>
Equipment - Net	<u>\$ 20,852</u>	<u>\$ 29,731</u>

NOTE 5 **LONG-TERM DEBT**

The DAA has entered into a long-term promissory note with the City of Anderson to purchase a parcel of land. The terms of the agreement are as follows:

City of Anderson Note

Loan Amount	\$130,632
First Payment Date	September 15, 2003
Payment Amount	\$ 902
Duration of Loan	180 Months
Interest Rate	3.0%
Total Outstanding at 12/31/07	\$98,713
Current Portion at 12/31/07:	\$ 7,973
Long-Term Portion at 12/31/07	\$ 90,740

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**27TH DISTRICT AGRICULTURAL ASSOCIATION
SHASTA DISTRICT FAIR
ANDERSON, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 27th DAA Board of Directors
1	Chief Executive Officer, 27th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



27TH DISTRICT AGRICULTURAL ASSOCIATION
SHASTA DISTRICT FAIR
ANDERSON, CALIFORNIA

MANAGEMENT REPORT #08-026

YEAR ENDED DECEMBER 31, 2007

27TH DISTRICT AGRICULTURAL ASSOCIATION
SHASTA DISTRICT FAIR
ANDERSON, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
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Anthony Delmastro
Sarah Blote

Audit Chief
Assistant Audit Chief
Auditor
Auditor

MANAGEMENT REPORT NUMBER
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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Pat Wallner, President
Board of Directors
27th DAA, Shasta District Fair
1890 Briggs Street
Anderson, California 96007

In planning and performing our audit of the financial statements of the 27th District Agricultural Association (DAA), Shasta District Fair, Anderson, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Shasta District Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 27th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 27th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute,



assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 27th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 27th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 27th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 27th DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: accounting for fixed assets, temporary employees, opportunity purchases, and entertainment tax withholding. We have provided five recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 27th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

ACCOUNTING FOR FIXED ASSETS

An audit of the Fair's accounting for fixed assets identified that the Fair did not correctly account for all fixed asset transactions prior to closing its accounting records and preparing the annual statement of operations (STOP). Our office noted that the Fair did not record two completed projects costs for the Satellite Wager Relocation and Restroom Replacement. According to the California Construction Authority (CCA) closeout project reconciliation report, the total project costs were \$289,570 and \$52,836 respectively; however, the Fair capitalized and depreciated \$23,283 of the Satellite Wager Relocation project. As a result, Account #192, Buildings & Improvements, and the related Account #192.1, Accumulated Depreciation, were understated by \$342,406 and \$86,025, respectively. Accordingly, the net resources available for operations were understated by \$256,381 on the year-end financial statements

Recommendation

- 1. The Fair should make the necessary adjusting journal entry to ensure the amounts recorded in Account #192 are fairly stated in the general ledger. In the future, the Fair should ensure that depreciable costs from all funding are capitalized and reconciled with the capital project closeout report from CCA. The Fair should consider contacting the Project Manager at CCA to request supporting documents for completed projects in order to properly capitalize the asset. In the future, this reconciliation should be performed prior to preparing the year-end STOP.*

TEMPORARY EMPLOYEES

The Fair allowed three temporary employees to work in excess of the 119-day limitation within a calendar year. According to the APM, "by law temporary employees may not work more than 119 days in a calendar year." The APM further cites Article VII Sec. 4(1) of the Constitution of the State of California as its basis for this policy. We noted these employees worked between 128 and 194 days in 2007.

In addition to above, the Fair did not enroll one 119-day employee, who worked in excess of 1,000 hours within the fiscal year, into the Public Employees' Retirement System (PERS). This employee worked 1,045 hours in fiscal year 2007/2008. Once temporary employees exceed 1,000 hours in a given fiscal year, they automatically become members of the Public Employees' Retirement System (PERS).

Recommendations

- 2. The Fair should comply with the APM and State constitution by ensuring temporary employees do not work in excess of the 119-day limitation.*

3. *The Fair should enroll all temporary employees into the Public Employees' Retirement System once the employee exceeds the 1,000 hours limitation in a given fiscal year.*

OPPORTUNITY PURCHASING

The Fair made opportunity purchases during 2007; however, the Fair failed to document that opportunity purchases met or beat the State price. Opportunity purchases allow the DAAs to purchase commodities from any source, provided it meets or beats the price available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. Merely stating the local price was equivalent to or less than that available through the state purchasing program does not sufficiently meet the documentation criteria. This was a prior year finding.

Recommendation

4. *The Fair should follow the proper guidelines when making and claiming an opportunity purchase by attaching all supporting documentation and bids demonstrating how the opportunity purchase meets or beats the State price.*

ENTERTAINMENT TAXATION WITHHOLDING

The Fair did not complete and submit a list of prospective out-of-state entertainers, who will receive \$1,500 or more, to the Franchise Tax Board (FTB), Withholding at Source Unit. The submission of this list will ensure proper taxation withholdings of entertainers/performing entities by the Fair when required by FTB. Beginning January 1, 2008, all withholding agents must withhold the standard 7% on California source payments to nonresidents.

Recommendation

5. *The Fair should complete and submit a list of prospective entertainers who will receive \$1,500 or more to FTB, Withholding at Source Unit, to ensure proper taxation withholdings.*

NON-REPORTABLE CONDITIONS

TIME RECORDS

The Fair did not accurately track the total hours worked on the leave card for year-end 2007. Based on examination of employee timecards, Standard 634 (STD 634) and leave card balances, we noted multiple instances where the Fair underreported the amount of hours worked, per the STD 634, on the leave records.

Furthermore, the Fair did not correctly accumulate vacation, sick, and holiday credit for Permanent Intermittent (PI) employees. We noted that vacation and sick were overstated for two employees by 14 and 24 hours respectively for 2007. Secondly, the Fair did not accumulate holiday credits earned for PI employees who were eligible for holiday pay. According to the Department of Personnel Administration, PI employees will be eligible for holiday pay on a pro rata basis, based on the hours worked during the pay period for observed holidays. Based on examination STD 634s we identified two PI employees who were eligible for holiday credit but did not receive it. We noted that the Fair understated total holiday hours earned for these two PI employees by 55 and 64 hours respectively for 2007.

Recommendations

The Fair should ensure that leave cards reflect actual time worked according the employee timecards. This helps the Fair track the number of hours worked in a given pay period so that the Fair can accurately calculate leave balances.

The Fair should adjust their leave records to reflect correct balances for vacation, sick, and holiday credit time accrued and used. For PI employees, vacation and sick time is earned for each 160 hours worked, and can be used after 960 hours without a break in service. Holiday credit is earned on a prorated basis based on the amount of hours worked for a pay period for an observed holiday.

COMPENSATED LEAVE LIABILITY

The Fair did not correctly account for Account #245, Compensated Leave Liability, to reflect the appropriate amount of time used or earned. Our audit determined, when comparing the STD 634 timecards to the employee leave balances at year-end, that the liability for compensated absences was overstated by \$935. This is a result of the Fair not accruing time earned for two employees for net total of 130 hours and not recording time used for three employees totaling 86.5 hours, for a total net underreported 43.5 hours on the leave cards at year-end. According to the APM, this balance should be updated annually prior to preparing the year-ending statement of operations (STOP).

Recommendation

The Fair should review employee leave balances and compare them to employee timecards at year-end to ensure that account #245, Compensated Leave Liability, reflects the appropriate liability. This account should be adjusted annually.

CARNIVAL REVENUE

The Fair understated carnival presale tickets sold on the carnival recap sheet for a total of \$1,981. Based on examination of carnival presale tickets sold and payments made by the carnival contractor, the Fair sold additional presale tickets subsequent to what was reported on the carnival recap sheet. As a result, the carnival recap sheet was calculated using the understated presale ticket sales and the carnival contractor made a final payment that was not necessary. The Fair should research this variance and, if necessary, establish an accounts payable for the amount due the carnival contractor.

Recommendation

The Fair should follow up with an ancillary review of the carnival recap sheet and if necessary repay any outstanding amounts. In the future, a reconciliation should be performed by the Fair and carnival contractor prior to receiving or making of any payments.

CAL-CARD PURCHASES

The Fair exposed itself to loss by not maintaining sufficient controls over the use of the State of California Credit Card (CAL-Card). A review of the CAL-Card expenditures identified that the Fair incurred travel related expenses that were charged to the CAL-Card. The CAL-Card program prohibits State agencies from using the CAL-Card as a payment mechanism for travel related expenditures, which includes air and ground transportation, lodging and meals.

Recommendation

The Fair should be aware of the policies and procedures associated with the use of the CAL-Card prohibiting lodging, transportation, meals, and beverage expenditures. The Fair should not use the CAL-Card for travel related purchases.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



February 3, 2009

Mr. Ron Shackelford
Chief, Audit Office
Department of Food & Agriculture
1220 N Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford:

The following is our response to the reportable conditions on the Preliminary Draft Audit Report your office performed on the 27th DAA for year ending December 31, 2007:

ACCOUNTING FOR FIXED ASSETS

Item 1 – The Fair will make the necessary adjusting journal entries for both projects (9927X.461 and 9927X.501) to ensure the Account #192 and #192.1 is fairly stated in the general ledger. The two projects listed were prior to the current SDF regime. Project #9927X.501 does not have a close out signature from Shasta District Fair, which could be the reason that it was never listed on our books, the project was from 1999. Project #9927X.461 from 1999 was not closed out until late 2007; the final close out sheet was not received by the Fair until after the STOP was completed. In the future, the Fair will ensure that depreciable costs from all funding are capitalized and reconciled prior to year end with the capital project closeout report from CCA.

TEMPORARY EMPLOYEES

Item 2 – The Fair will do its best to comply with the APM and State constitution by keeping better track of the 119 days temporary employees work.

Item 3 – The Fair will enroll all employees' that exceed 1,000 hours in a given fiscal year into the Public Employee's Retirement System.

OPPORTUNITY PURCHASES

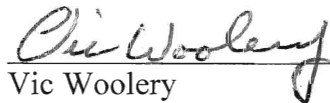
Item 4 – The Fair will follow proper guidelines when claiming an opportunity purchase by attaching supporting documents and bids demonstrating how the opportunity purchase met or beat the State price.

ENTERTAINMENT TAXATION WITHHOLDING


Item 5 – In 2008 the Fair complied with the Franchise Tax Board and withheld 7% on nonresident entertainers. The Fair will continue to comply with the FTB withholdings.

If you have any questions, please feel free to give me a call.

Sincerely,



Vic Woolery
President



Chris Workman
CEO

cc: Division of Fairs & Expositions

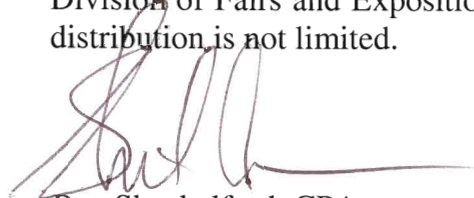
C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 27th DAA, Shasta District Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between November 3, 2008 and November 14, 2008. My staff met with management on November 14, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



For Ron Shackelford, CPA
Chief, Audit Office

November 14, 2008

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 27th DAA Board of Directors
1	Chief Executive Officer, 27th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office